ember 21, 1960

Investor's Reader

For a better understanding of business news

A QUALITY PERFORMANCE BY S D WARREN (see page 12)

SEASON'S JOYS

These TV-tinged Wi
Westerners previewi
Christmas morning discov
cartoon private eye "Qui
Draw McGraw" has sleuth
his way out of the set a
into the living room. T
new picture game is o
one of a series of educ
tional board games whi
the Milton Bradley Compa
of Springfield, Mass h
patterned after televisi
favorites including We
Fargo, Wagon Train and T
Rifleman. Non-cowboys c
try their hand at Concentr
tion, the parlor counterp
of NBC's picture puzzle so
ing show. Bradley's heav
pushed current favorit
however, has no direct
counterpart. The "Game
Life" in which players try
become millionaires through quick or complex ways is a 100th annivers
update of Bradley's original game complete with car, capital gains a
income tax.

Centenarian Bradley has landed on its share of "Move Ahead" and "C
lect" as well as "Go Back" and "Pay" squares in its own Game of Li
Founder Milton Bradley's strong belief that "learning should be fun" l
him to manufacture educational aids and games. But by 1941 the compa
was almost bankrupt when resourceful present president James J Shea to
over. He called in teachers to help redesign the company's lines and w
ready to grow with the postwar kiddie boom.

Supplementing its school aids, Bradley now offers over 24 "Flash Card
and other "Teaching Aids" for home use. They help teach elementary-a
youngsters the 3 R's plus science, social studies and foreign languag

During the past eight years, the enterprising fun-with-education produc
doubled sales and quadrupled profits. Last year alone sales jumped 40
to $12,300,000 (a million sets of Concentration accounting for 16
while net income more than doubled to $746,000. Contrary to much of t
toy industry, 1960 operations have consistently run well ahead of last ye
Milton Bradley counts on its traditionally dominant fourth quarter to pu
sales and income up to or possibly past last year's records.

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Investor's Reader

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Brighter Outlook for Oil Industry

Progress in Coping With Oversupply Causes Optimism

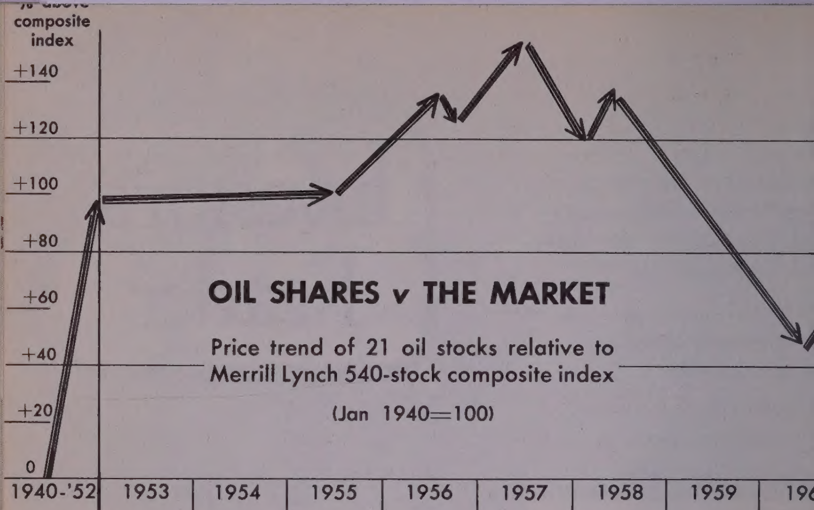
The lush times of the oil industry are gone.

SO STATED Herbert Willets, executive vice president of billion-dollar Socony Mobil Oil Company, at a meeting of 6,300 oil men in Chicago a few weeks ago. Speaking to one of the biggest American Petroleum Institute annual meetings in history, the 61-year-old veteran of 37 years in the oil business warned against doing "expensive and unnecessary things out of habit." He urged his colleagues to "create a climate of economy."

Though the API men spent most of their time pondering industry troubles several members later described the overall tenor of the meeting as "optimistic." Investors apparently share this sentiment as oil stocks have recently performed better than they have for some time.

Investor appraisal of oil stocks in recent years is clearly illustrated on the "ratio chart" on page 2 which shows an upward arrow when the oil stocks performed better than the general market, downward arrows when they performed worse. Thus oil shares decisively outperformed the overall market during most of the war & postwar years until mid-1957, then lost ground sharply for most of the next three. (In actual price they declined about 40% during the latter period while the general market climbed 20%.) Since May however oil stocks have advanced a modest 9% while the rest of the market has climbed back to the May level.

One reason for this recent betterment shows up in the improved nine-month earnings reports for most major companies (see table). Outlook for the present quarter is promising though it is clouded by unseasonably warm weather which



OIL SHARES v THE MARKET

Price trend of 21 oil stocks relative to Merrill Lynch 540-stock composite index

(Jan 1940=100)

hurts heating oil sales in some areas of the country and by scattered cuts in gasoline prices elsewhere. Behind the overall picture are several basic industry problems.

Oildom's biggest headache is world oversupply of oil. After nearly a century of running free in its race to find and produce oil, the industry has outpaced the steadily rising demand for petroleum products. Tremendous discoveries, particularly in the Middle East, have boosted proven world reserves approximately six times in the past 16 years. Meanwhile US reserves increased only 50%. However approximately 60% of the Middle East discoveries are controlled by US companies attracted by the rich supplies of oil and lower production costs.

Total world production of crude oil during these 16 years climbed 315% compared with a demand rise of 170%. A major reason: the War II and post-war speed-up. And more recently things were spurred by the Korean War and various Mid-E crises (ie closure of the S Canal).

A major internal cause of present domestic surplus is the dustry's "incremental throughp method of scheduling refinery r according to supply of crude rat than consumer demand for prod Reason: reduced unit costs. As industry spokesman explains, " very presence of excess capa leads to a tendency to over-refi then to unrealistic inventory bu ups and eventually to price wa

Slower Demand Growth

What concerns oilmen today slower growth in demand. Dur the past ten years demand for roleum liquids increased at an a age annual rate of around 5% the US and 8% around the wo Over the next five years these r are predicted nearer 3% a yea home and 6-to-7% abroad.

The overall situation this yea encouraging. After price weak during most of the first two q

ters, the domestic oil industry has steadily improved, principally because of supply curbs. For example, strict prorationing in Texas was a record low eight days a month from May through November; it was raised to nine days for December.

Hence domestic crude production for the first nine months was down 1%; last year it had risen 5%. A second major regulatory factor, import controls, also appears to be working. Estimated imports of crude and oil products for 1960 are lower than a year ago and prices are stronger at home than abroad.

Inventories Reduced

Thanks to a combination of production curbs and voluntary cutbacks, crude inventories are now at a postwar low and refinery runs have been reduced. Unless the fourth quarter is severely affected by continued warm weather, most companies are expected to show some improvement on 1960 results.

Nevertheless many oil men are disappointed. For the nine months overall domestic demand rose only 1.6% as against earlier predictions of 3-to-4%. Demand for gasoline, the highest profit item, increased a scant 1.1%.

Jersey Standard chairman Monroe Jackson Rathbone cites reduced business activity. He said in Chicago: "The majority of signposts indicate we are now in a business recession * * * if conditions don't change unexpectedly the downturn should bottom out by the end of the second quarter of next year but it is likely to hold the increase in next year's demand to only 2-to-2½%." The Jersey chairman said petroleum demand has become more sensitive to the general economy because today 30-to-40% of gasoline used is burned by business. Also blamed for slow gasoline demand are compact cars and high state and Federal gas taxes.

New Uses

Speaking as chairman of the API as well as chairman of the country's largest oil company, Jack Rathbone urged that each company help raise demand by finding new uses for old petroleum products. This year Jersey discovered: 1) asphalt spray can be used to protect seedlings from dehydration; 2) heavy oil makes a good blast furnace fuel in iron manufacturing.

Meantime oil men are waging an internal battle to reduce costs and prevent further excess production. During the past two years many companies have cut payrolls, reorganized management for improved efficiency, increased automation, restricted drilling and generally kept a critical eye on once plush budgets. Reports Socony Mobil president Albert L Nickerson: "Since the beginning of 1958 Mobil Oil has reduced employment between 9,000 and 10,000. Our reorganized marketing division alone has reduced its offices by one-third and employment by 21%." Atlantic Refining, Jersey Standard, Sun Oil, Texaco and Tidewater were among other companies reporting cost-cutting benefits in their third quarter statements.

A more established source of profits for many companies is in-

BOXSCORE ON SOME OIL LEADERS

	Nine-month sales in millions			–Nine-month earnings a sha adjusted for splits, etc		
	1960	1959	% Gain	1960	1959	% Ga
Amerada Petroleum	$ 76.1	$ 76.6	—0.7%	$2.85	$2.78	2.5
Atlantic Refining	410.7	401.2	2.4	2.92	2.70	8.1
Cities Service	705.3	733.8	—3.9	2.47	2.54	—2.8
Continental Oil	589.5	576.4	2.3	2.15	2.15	—
Gulf Oil		Not Reported		2.31	2.10	9.5
Ohio Oil	263.1	259.3	1.5	1.98	1.95	1.5
Phillips Petroleum	902.4	882.0	2.3	2.30	2.25	2.2
Pure Oil	487.3	461.8	5.5	2.04	2.21	—7.7
Shell Oil	1,354.2	1,347.2	0.6	1.72	1.72	—
Sinclair Oil	903.6	915.1	—1.3	2.24	2.25	—0.4
Skelly Oil	187.8	192.1	—2.2	3.02	3.33	—9.3
Socony Mobil		Not Reported		2.80	2.54	10.2
Std Oil of Cal	1,434.5	1,336.3	7.3	3.15	2.85	10.5
Std Oil of Ind		Not Reported		2.87	2.97	—3.4
Std Oil of NJ	6,592.0	6,495.0	1.5	2.31	2.22	4.1
Std Oil of Ohio	359.0	343.9	4.4	3.51	2.89*	21.5
Sun Oil	544.8	559.8	—2.7	2.67	2.46	8.5
Sunray Mid-Continent....	344.7	341.0	1.1	1.48	1.57	—5.7
Texaco	2,186.7	1,996.4	9.5	4.52	4.24	6.6
Tidewater Oil	434.7	415.5	4.6	2.01	1.76	14.2
Union Oil of Cal	398.6	378.2	5.4	2.78	2.34	18.8

*Before 70¢ nonrecurring gain.

creased sale of natural gas and petrochemicals. Sales of petrochemicals last year totaled $5.7 billion (*v* $3.9 billion in 1955). This far younger industry is expected to outpace oil with an estimated annual rate of increase of over 10%.

Natural gas also enjoys rapid growth though benefit is restricted because it competes with oil. Gas consumption nearly doubled in the past decade while oil consumption gained 1½ times. Significantly increased sales in both natural gas and petrochemicals are reported this year by such companies as Gulf, Phillips and Jersey Standard.

While they tussle with current problems oilmen are decidedly positive about the future. Gulf Oil's newly elected president E D Brock ett maintains: "There have bee more gloomy predictions than th situation warrants * * * Oil thi year performed better than th overall industry average. Com pound even the somewhat reduce growth rates predicted for the in dustry in the next few years and submit you will get an impressiv figure."

Says Herb Willetts from Socony Mobil headquarters in New York "I feel much happier about the situ ation now than I did a year ago a some of our problems appear to b correcting themselves * * * With the prospect of slower expansion w must operate as a highly efficien industry in order to make the re sults we expect."

AILROADS

ong . . .

NEW YEAR'S EVE will end one of the longest bankruptcies in e history of US railroads. At ex-ctly fiye minutes after midnight e $108,000,000-assets Florida East oast Railway will chug out of the ›urts and into private ownership. he FEC went bust in 1931 and nce then has been embroiled in an most continuous fight between var-ɔus groups seeking control and a ıy in the reorganization.

Over the years hundreds of thou-ınds have been spent in legal fees ıd costs. The winner is Florida's t Joe Paper Company which is con-olled by the Alfred I du Pont Test-mentary Estate. Holders of $45,-)0,000 in defaulted bonds will get 500 first mortgage 5s, $500 income ½s and 32 shares of new common ɔr each $1,000 old bond. For their ɔng wait, the Flagler estate, owners f 375,000 shares of old common get -zero.

. . And Big

MANY MONTHS of work are ahead but possibly the biggest ansportation system in the nation in the works. Under the plan the orfolk & Western will merge with ıe New York, Chicago & St Louis Nickel Plate) and take over a 50-ear lease on the Wabash with an ption to merge. The plan is be-eved to be the brainchild of Penn-ylvania Railroad which owns 33% f N&W stock and over 99% of Vabash common. Mother Pennsy will speed things along by selling a 111-mile connecting link called the Sandusky Line to N&W for $27,000,-000 cold cash. These arrangements must be approved by the ICC and various stockholder groups.

Eventual OKay is expected be-cause both the ICC and most in-vestors realize mergers are almost imperative to improve the financial health of the railroads. When the deal is complete, the new system will have 7,400 miles of road, assets of $1.7 billion and estimated 1960 profits of about $80,000,000. As the New York *Times* wrote it: "The biggest money-maker of any trans-portation complex in the nation—on the land, in the air or on the sea."

CHEMICALS

Cincinnati Compounder Tackles Industry Cleanup Problems

NOT MANY companies can boast the enviable record of chemical compounder DuBois Chemicals Inc. The Cincinnati company claims a 27-year unbroken chain of operat-ing profits gains as well as an in-crease in sales every year but one since 1933. The exception: 1946, right after War II when sales fell off a nominal $7,000.

If "all goes well in the next few months," president Louis Lerner "expects another banner year" come February when DuBois closes the books on fiscal 1960/61. He esti-mates sales up 9% to $27,500,000 and profits of $1.10 a share (in-cluding 9¢ nonrecurring capital

Vice chairman William Nelson, chairman DuBois & president Lerner

gain) as against 95¢ last year. Certainly he is on his way. For the six months ended August, DuBois netted 56¢ a share *v* 49¢ on sales up 10% to $13,500,000.

The business itself was founded four decades ago by chemist Tunis Vanderveer DuBois whose son Charles (see picture) is current chairman and sales chief. However, the present corporation came to life early this year at the climax of some extensive corporate reshuffles which brought once closely held DuBois a stockholder family of 4,000. It started in the Fall of 1958 when the owners of DuBois Holding Company (which in turn wholly owned the operating DuBois Company) sold a 50% interest to Hall-Scott, Inc for $7,500,000. Hall-Scott, created in 1954 through a spin-off by ACF-Brill, had just become a corporate shell by selling its engine and precision parts business to Hercules Motors.

Then this April Hall-Scott a[...] the two DuBois companies merg[...] into the present corporation wi[...] Hall-Scott holders receiving 1,03[...] 000 and DuBois holders 1,238,0[...] shares of new common.

An additional 200,000 shares we[...] offered in June at $13.50 to bri[...] the total outstanding to 2,477,0[...] shares. There is no debt or preferr[...] but there are options to purcha[...] 75,000 additional shares. In Aug[...] the common was listed on the B[...] Board where it has ranged betwe[...] 12 and 19. It now trades around [...]

At merger time Charles DuB[...] who had been president of the [...] DuBois Company moved up [...] chairman. Lou Lerner who h[...] served as executive vice preside[...] of DuBois Company and preside[...] of DuBois Holding became pre[...]dent of the new concern. Both m[...] are thirty-year DuBois veterans.

In the strictest sense of the wo[...]

DuBois is not a chemical company. Lou Lerner explains: "We buy all our raw materials and just do the compounding." The company makes a wide range of chemical cleaning, maintenance and processing products. Roughly one-third are dishwashing compounds but the company likes to point out it cleans everything from dishes to missiles. For instance it has a special cleaner which respects the delicate tolerances of the new metals used in jet engines, yet effectively removes the residue from the heavy load of kerosene used by the jets.

To insure proper usage of its compounds DuBois also makes and distributes its own dispensing equipment such as the Viz-A-Trol, an electronic device which feeds the dishwashing compound into giant commercial dishwashers. A similar device called Rinsatrol dispenses a rinsing agent. This equipment however accounts for only a minimal amount of business.

DuBois customers are largely industrial and institutional. Emphasizes Lou Lerner: "We are not in the retail field and we want no part of it." DuBois also sells compounds to the transportation industry for use in both interior and exterior cleaning of railroad cars, planes, ships. The total list of users ranges from manufacturers and food processors to hotels, hospitals and restaurants. Included are such big name outfits as Ford, Boeing, Royal McBee, also little fellows like aircraft subcontractor Aeronca Manufacturing and meat packer Dubuque Packing.

Many a DuBois product has started out as a custom-tailored answer to a specific company cleaning problem. The company has an extensive lab in Cincinnati to which its salesmen from all over the country can bring the problems of individual accounts or prospects. Also many companies come to DuBois on their own.

Research Results

DuBois research generates from two to five new products a year. One new product this year is Dri-It, a drying agent applied in the final rinse of mechanical dishwashers which enables tableware to dry instantly. Other new items in this year's line include an aluminum etchant and a silver detarnisher.

DuBois maintains a staff of more than 500 salesmen who are constantly on the road calling on old and drumming up new accounts. Besides the usual commissions the company offers a bonus of a new Knox hat at Christmas to each salesman who brings in 15 new accounts during the year. Recently one salesman well on his way to 30 asked if he would get another new hat for the second 15. Lou Lerner replied: "Sure!"

While DuBois is in a specialized field competition is nonetheless keen. The company numbers among its competitors over-the-counter traded Economics Labs and Diversey, also West Chemical "to a slight degree," the chemical specialties division of Pennsalt, the J B Ford division of Wyandotte and privately held Oakite. Lou Lerner believes "we stand No 1 according to published figures

and I would say we were ahead of the Wyandotte and Pennsalt operations."

DuBois compounds its chemical products at plants in hometown Cincinnati and also in Los Angeles, East Rutherford, NJ and Dallas. A network of 77 warehouses aids distribution throughout the US, in Alaska and parts of Latin America and Canada. So far it has yet to venture outside the Western Hemisphere.

Meantime business at home keeps DuBois pretty busy. The company is adding a 17,000 square foot expansion to its two-year-old East Rutherford plant. The Dallas plant which was completed just last year is also in for a similar expansion. And north of the border DuBois is considering a Canadian manufacturing unit "with room for expansion." Says Lou Lerner: "We're always having growing pains, but we like it that way."

With this in mind he is pretty optimistic about the DuBois future. For fiscal 1961/62 he anticipates sales will rise to $30,000,000, "subject of course to economic conditions," and "our profits had better go up." Directors evidently share his optimism. Just last week they voted a one-third hike in the common dividend to a dime quarterly, also declared an extra to bring total 1960 distributions to 40¢.

But just to dampen any thoughts of high-flying results Lou Lerner is careful to point out: "We are growing but we don't expect anything spectacular. We're just not in that kind of business."

ELECTRONICS
Lear & Microcircuitry

THE WORDS of chairman Wi liam Powell Lear of aircra maker Lear, Inc before he returne to his overseas base in Geneva la Spring were: "I am giving the ma agement team a chance to flex i muscles and run with the ball" (IR March 16).

Last week Lear's young (42) pre ident Albert Gustave Handschuma cher made a cross-country run fro company headquarters in Californi to tell the New York Security Ana ysts how Lear's muscle tone is. Hi major topic: the solid state of Lear Solid State Physics Laboratory.

In particular he stressed the lab' capabilities in the field of micr circuitry — the means of makin conventional electronic circuit smaller and more reliable. The part of the circuit are deposited on a tin base through a photoengraved mas and, according to president Hand schumacher, must be made to orde for the circuit in which they a used. Consequently "the parts ca not be made in one plant and a sembled in another."

Those Who Have

As a result he predicted: "Soo there will be 'haves' and 'have-not in the electronic industry — thos manufacturers who have in-pla microcircuit capability and thos who do not." Then he scored: "Le is one of the few US companies wit established capacity in this field.

President Handschumacher als made these points about Lear's fi cal circuitry:

- Revenues from international o

erations, estimated at $4,000,000 this year, are expected to climb to $7,000,000 in 1961.

- Service for Lear-made instruments is expected to provide $3,-200,000 in revenues this year and about $6,500,000 in 1961.
- Lear sales should exceed $90,000,-000 this year and produce earnings of $3,600,000 or $1.30 a share (including 29¢ a share from sale of assets to Motorola). This compares with sales of $87,000,000 and earnings of $2,407,000 or 91¢ in 1959.
- Earnings in 1961 should equal or exceed the $2,800,000 (or $1.01 a share) of 1960 operating net.

Sales are well distributed among Lear's over 1,000 products and a number of consumers and contracts —no one customer or military contract represents over 5% of sales. But a prime Lear goal is making military sales 60% of total *v* 85-to-90% now.

OFFICE EQUIPMENT
Univac Generations

THOUGH an industry scarcely out of swaddling clothes, electronic computers these fast-moving days have already passed far beyond the first generation (vacuum tube computers) and are now on the last leg of the second generation (transistorized). Last week the Remington Rand division of aircraft-electronics-office machine-farm equipment complex Sperry Rand Corp flew a planeload of reporters and security analysts to Univac Park, the St Paul home of Rem Rand's Univac Military division.

There it introduced "the first of the third generation of commercial computers," the Univac 1107. It was described as the first computer to employ thin magnetic film memory which Rem Rand has been researching under the leadership of Univac research director Dr Sidney Rubens (see picture, page 10) for the past six years. Hailed as a "major scientific breakthrough" by Univac scientists, thin film memory speeds up the access time needed to retrieve information from the memory from microseconds (millionths of seconds) to almost unheard of nanoseconds (billionths of seconds).

Like all computers the 1107 is not cheap. But Univac claims its rentals of $40-to-60,000 a month are "appreciably lower in cost than less advanced equipment." The company figures it will break even with "orders for 40-to-50" but expects to place "considerably more."

The interested audience had barely time to digest this bit of computer news before the enthusiastic Univacers brought forth their new Univac Real-Time computers—the 490 and its military counterpart, the 1206. These two wonder brains enable the questioner to obtain the answer to his query in order of the time he needs the answer. Since the machine is able to accumulate answers this can often make data instantly available.

While the 490 and 1206 are brand new systems, the real-time concept has already been used by Univac in a number of heretofore classified military applications as for instance its Athena missile guidance unit designed for the Martin Titan and the

Printed circuitry sheet for thin film memory

"fills out our line of prod-ucts." It now has a compu-ter for almost every pock-etbook from the modula system STEP which rent for $3,500 a month to th supercomputer LARC, de-veloped for the AEC. I also offers a commercia version of the LARC with a $6-to-8,000,000 pric tag or a $135,000 monthly rental. So far it has no received any orders

Naval Tactical Data System, a defense against enemy air and sea attack, for which Univac first developed the concept.

While the NTDS is highly oriented toward military hardware, the 490 deals with commercial printers, tape units, drum files, etc. The 1206 represents sort of a medium. It is slightly "less ruggedized" than the NTDS but capable of handling both missile guidance programs as well as commercial data processing.

Univac cites a score of potential outlets for its new Real-Time computers from inventory & production control in industry to deposit & withdrawal, branch operation and accounting work for banks, to reservation systems control for airlines and railroads. In one study for a Midwest drug maker, Univacers discovered it normally took two weeks to get a record of an aspirin shipment from one of its warehouses into the central office. Real-Time obtains the same record almost simultaneously with the shipment itself.

Univac feels the new equipment

Univac does have plenty of order for its low-cost solid-state transis-torized 80-90 which sells for abou $350,000 and rents around $7,000 month. Univac marketing directo Gordon Smith calls it "our most suc-cessful current computer with ove 150 installations since mid-1959.

And on its way to popularity i the Univac III, the company's firs large scale transistorized data proc-cessing system, which competes with IBM's 7090, RCA's 601. Gordo Smith reports "we've got 50 letter of intent, the result of the most suc-cessful our single sales effort ever."

To push its computers, Rem Ranc has increased its Univac field sale force almost 50% with a resulting 31% increase in division revenue for the six months ended September Gordon Smith adds: "In terms o booked business October was the best month in the history of Univac and November exceeded even this."

Big losses in the Univac divisior with its huge development expense have not helped the overall Sperry Rand picture. Since the still no completely digested merger of Sperry

Corp and Remington Rand back in 1955, sales have climbed from $710,700,000 to a record $1.2 billion last year. Profits for the same period however skidded from $46,300,000 or $1.80 a share to $27,600,000 (96¢) in the March 1959 year.

The following year they recovered somewhat to $37,200,000 ($1.30). But this year has again seen somewhat of a setback with profits for the six months ended September down to 41¢ from 66¢ although sales inched up by 1%.

While part of the problem has been Univac losses it is by no means the entire picture. The whimsical dictates of defense work have also had their effect on Sperry's ups & downs. So has intense competition and general lack of growth in typewriters.

Another factor had been the heavy and unwieldy centralized set-up of Remington Rand itself. However over a year ago Rem Rand began a complete reorganization and decentralization job. Much of this was the handiwork of new (September) Rem Rand president Dause L Bibby, a former IBM vice president who also did a stint at Daystrom before coming to the Remington Rand division in 1959. Partly as a result of his efforts all Remington Rand divisions are now run separately with each division manager responsible for sales, profits, planning, etc. Thus while he cannot speak for the rest of the Remington Rand divisions, the Univac marketing director says: "Though we're not yet in the black here at Univac we feel we've turned the corner."

UTILITIES

Into Each Life

RAINFALL in the Texas and Oklahoma Panhandles usually brings joy to the inhabitants and this has been a record year for such gladness. But it somewhat wetted down the spirits of the men who manage Southwestern Public Service Company which provides electric power to the Amarillo area and the two Panhandles plus small pockets in Kansas and New Mexico. The company's complaint: the rain kept air conditioning and irrigation volume below expectations.

Despite this moist circumstance, Southwestern's monetary meters registered substantial upswings. In a visit to Manhattan early this month chairman Herbert Nichols noted sales for the fiscal year ended August 31 reached $51,900,000, up from $47,100,000 in fiscal 1959. Earnings applicable to common stock rose to $10,000,000 or $1.14 a share from $8,720,000 or 99¢ (adjusted for a 2-for-1 split on March 1).

In a year not noted for establishing new highs, Southwestern stock gradually edged up to an alltime high of 29⅛ following its split. On the Big Board last week it was resting comfortably only about a point under that. Moreover, the split last March brought with it a boost in the dividend to 14¢ quarterly, the company's fifteenth dividend hike in the last 18 years.

With expansion mapped well ahead, vice president-secretary Don D Loden sees a revenue rise in the next five years to $82,000,000, over half again the fiscal 1960 figure.

S D Warren Counters Paper Trend

New England Veteran Reaps New Benefits From Improved Plant

HOME for quality printing paper maker S D Warren Company is the 10th floor of the old-fashioned red brick Public Service building at 89 Broad Street on the outer fringes of Boston's financial district. Even more old-fashioned is the company's lineage. The New England veteran dates well back into the last century when Samuel D Warren and Otis Daniells, both partners in the Boston paper merchant firm of Grant & Daniells, decided to go into manufacturing. In 1854 they bought a 3,000 pound-a-day paper mill which was located on the north bank of the Presumpscot River in Westbrook, Cumberland County, Maine.

But save for its headquarters and heritage, everything else about Warren is modern. Cumberland Mills is still the company's main plant. But it bears little resemblance to the original Westbrook facility. Today it is a modern bustling pulp & paper mill with a capacity of more than 150,000 tons of saleable paper each year. There is also a small plant at Gardiner, Maine which produces thin Bible papers and carbon base papers. And in 1953 Warren went west, acquired its Central Mill at Muskegon, Mich which now can produce 55,000 tons a year and has its own pulp facilities.

The three Warren plants have a total annual capacity of 207,000 tons of paper. These are sold mostly through 115 independent distributors to commercial printers, trade & textbook publishers and magazine publishers all over the country. A small amount is sold directly to certain large publishers and to specialty paper makers and converters.

In chief charge of Warren's welfare is 57-year-old George Olmsted Jr who has been with Warren all his business life and president for the past 16 years. He started as a mill apprentice in 1924, went into sales the following year. In 1934 he was named general sales manager, vice president and a director, held these posts until assuming his present job ten years later.

Midwestern Transplant

Looking for all the world like a proper Bostonian George Olmsted is actually an import from the Midwest. He was born in Evanston, Ill. But he came east to pick up a BA degree (1924) and Phi Beta Kappa key at Williams. A respected industry leader, he served a tour as president of the American Paper & Pulp Association in 1950-51.

He couples his considerable talent for running a taut Warren ship with an equal talent for writing folksy, philosophical as well as very detailed annual reports to the delight of Warren's 3,800 stockholders. In fact the 1959 annual was judged best in the industry in the annual *Financial World* competition.

Like many a Bostonian, George Olmsted's interests have gravitated eastward to Maine. He has also found the state a good site for salmon fishing in the Rangely Lakes

(see picture) as well as paper making.

With efficient production Down East and effective sales throughout the nation, $56,000,000-assets Warren has in the past decade more than doubled sales to last year's record $70,980,000 while profits expanded from $2,640,000 or $1.41 a share in 1950 to $4,980,000 or $2.30. Warren stock has expanded even more from an adjusted low of 3⅞ in 1950 to a peak 37¾ earlier this year. The 2,100,000 common shares were listed on the Big Board in April, now trade under the WRN symbol only a point or so off their high. They were split 2-for-1 in March; then the dividend was increased 12½% to 22½¢ quarterly with the June payment.

This year George Olmsted expects another Warren record with profits estimated at $2.40-to-$2.45 a share. While this is down somewhat from his original estimates, Warren is a star performer amid an industry beset by overcapacity and low pricing problems (IR, November 23).

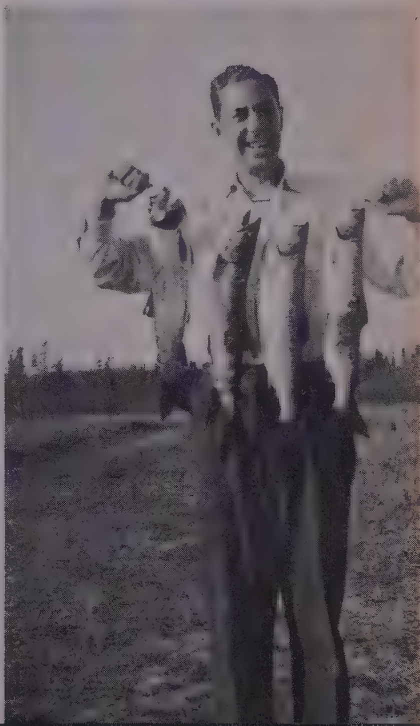
Michigan Modernization

Actually, a principal reason for the trend-defying current is found in Michigan rather than Maine. After seven years of Warren ownership the Central mill at Muskegon which turned its first profit only last year is showing continued improvement. George Olmsted notes: "We're doing better than last year there because of modernized operation in spite of the facts that orders [because of industry conditions] have been pretty ragged since June and we've had no more tonnage than last year." During the seven-year period Warren spent more than $15,000,000 to convert Central from an unbleached kraft mill to a maker of highgrade book papers. A recent improvement was a switch from the old batch beater stock refining system to a completely automatic and continuous refining and proportioning system.

The Central acquisition marked quite a departure from traditional Warren policy to build up its facilities rather than acquire new ones.

While Central is now contributing a nice profit George Olmsted recognizes there is still work to be done. Over the 1963-65 period he plans to spend an additional $25,000,000

Olmsted with Rangeley Lakes catch



Hardwood logs en route to pulp mill

there, some of which will go to rebuild Central's pulp mill. Also planned is a new paper machine which would increase capacity at the Michigan mill 40%. After the Central project Cumberland Mills is also due for its share of expansion. George Olmsted "would like to add another machine there" but this plan is well in the future.

Warren expansion has been financed by insurance loans and retained earnings. "We haven't sold a share of common stock since 1929." Current long-term debt stands at $11,234,000. There are also 20,000 shares of $4.50 preferred outstanding which were issued back in the mid-Forties. For the new program at Central however, George Olmsted figures "we will borrow another $10-to-$12,000,000 and we may have to do some equity financing."

While Central has been important in Warren's recent profit picture, it is not the sole reason for the solid earnings improvement. One factor is rather technical. For 75 years Cumberland Mills used the soda process for its pulp production but now has switched to the sulphate process—or as it is commonly known—the kraft process. The soda process uses caustic soda as a cooking liquor. The kraft process uses a combination of caustic and sulphur. This switch, one of a number of recent improvements at Cumberland, has produced a 10% higher wood yield. In addition it has resulted in 35% greater pulp strength from hardwood, a 50% increase from pine.

The switch was not without its problems, one of which was what to do about the traditional kraft smell when the wind blew east toward Portland. By contrast, soda pulp has no odor. George Olmsted thinks Warren has that headache at least partially licked. All the gases from kraft cooking are passed through an elaborate cleaning system which "absorbs a large part of the odor."

Another important reason for the good Warren showing was the fact "we have not been forced to cut any of our prices." Thus George Olmsted reasons: "While we have probably suffered somewhat in tonnage this year as against last, with the price increase we got at the beginning of the year our dollar sales will be greater and we'll end up with about 6% more profit."

Warren not only specializes in the

type of products called "quality papers" but also prides itself on the quality it puts into these papers. George Olmsted states: "Our competitors say Warren leads the industry in quality." But he cautions: "The problem is to stay here."

In an industry which spends relatively little on research, Warren's quality standards have resulted in a "more-than-the-industry average research budget." Last year it came to about $900,000. This has produced a number of quality improvements, lower cost techniques and new products.

Warren research has also come up with a number of industrial specialties. One of these is decalcomania paper which has "terrific" industrial applications in transferring name tags onto machinery. The labs have also developed reflective insulation and a special paper-based lithographic printing plate good for short run items such as college and school annuals. George Olmsted says: "We have three or four others in the works but I can't tip our hand by telling about them now." The research budget is also due for some expansion. Warren is doubling the size of its lab this year but "it will take three to five years to get the additional personnel we want."

Eventually George Olmsted hopes to finance a large part of his research budget through royalties from its dozen or so foreign licensees. President Olmsted figures "in five years we will be able to pay a substantial part of our research costs from these royalties." Warren chose the licensee arrangement after careful study. Explains George Olmsted: "We decided foreign markets were great for paper products where pulp is a large part of the cost. For us the cost is in people, coating, calendering, sorting. We figured foreign buyers would never give up their local sources and besides we couldn't get in without having to hurdle some sort of tariff. So we decided to license."

Domestic Overcapacity

Right now George Olmsted is more concerned with the domestic scene. Biggest problem is the gross overcapacity which has hit practically every segment of the paper industry except the happy growth field of household papers. Even with normal economic growth he says "it will be three to four years, if ever, before demand catches up to supply. And as the new machines come in, it will be a long time before we see another 1956 when we all ran chock-a-block full. You've got to get the industry to realize that an adequate price level is more important in the long run than volume."

So far Warren has been lucky. The price increase instituted last January has held and George Olmsted figures "based on present volume we should be able to continue to hold it." However next July the paper industry is due for another 3% increase in labor costs. But president Olmsted is optimistic in spite of all that. He feels the first six months of 1961 will be a highly competitive period with a definite improvement in volume during the last half—with sales for the full year year coming close to 1960.

Metro-Goldwyn-Mayer Mirror

Solid Profits Reflect Reduced Overhead Plus Ben-Hur

THE LION of Metro-Goldwyn-Mayer, Inc is back in top cinema shape and in fact adding several glistening layers of fiscal fat on a diet of charioteers and early Christians. During most of the Fifties the longtime King of the Hollywood Jungle had become a rather mangy and beleaguered beast, beset at various times by proxy hunters while still under the gun of the Government's Antitrust Attorneys.

The chief trouble was the customary source of Hollywood woes: a string of pictures which failed to draw enough viewers. There was also a good deal of management unrest as several groups with relatively large stock interests voiced their emphatic disappointment. A number of top shifts took place before president Joseph R Vogel was put in command in 1956.

Meantime Loew's Inc, as the company was known until ten months ago, was the last of the major movie makers to divorce production and theater interests. This was not because it was eager to wage a rear-guard fight against the antitrusters but rather because no one could agree on how to effect the split-up of the complex financial and operating structure.

In 1952 Loew's finally signed a consent decree but not until March 1959 was the movie and record business actually separated from its theater chain and radio station. Stockholders received one half shar of producing company stock whic temporarily retained the Loew's In name and one half share of Loew' Theatres Inc for every old shar held. This year Loew's Inc switche its name to Metro-Goldwyn-Maye Inc (and converted the LW Bi Board symbol to MGM) "to identif the company by the name wit which it is most closely associated'

Prior to the separation Loew' profits had dropped from a peak o $18,700,000 in the August 1946 yea to a $455,000 deficit in fiscal 195 In the 1958 fiscal year MGM alon suffered a $1,200,000 loss whil Loew's Theatres earned $1,970,00

The Road Back

Then in fiscal 1959 MGM made solid comeback. The company nette $7,700,000 or $2.91 a share on 17% volume rise to $131,000,00 To celebrate MGM directors de clared a 30¢ quarterly dividend, th first in two years. At the time Jo Vogel attributed the gains to "tigh ening of operations, substantia economies, imaginative use of ac vertising" along with sound financia practices and "more discriminatin use of our Culver City studios. President Vogel who switched t this job from president of the ol theaters subsidiary says: "Sinc I became president four years ag we have cut out $8,000,000 in over head. There is no nepotism in ou company and it will stay that way The only additional expenses w have incurred are in connection wit expanding operations."

Just last week Metro reported for fiscal 1960. The first annual report boasting the Metro-Goldwyn-Mayer title showed earnings rose 25% to $9,600,000 or $3.83 a share, a twelve-year high even including the years when the theaters subsidiary was consolidated. This was accomplished despite a $500,000 drop in volume caused by a one-month strike by actors and a five-month strike by writers last Spring. Gains were again passed along to MGM's 16,000 owners when the quarterly dividend was upped a dime to 40¢.

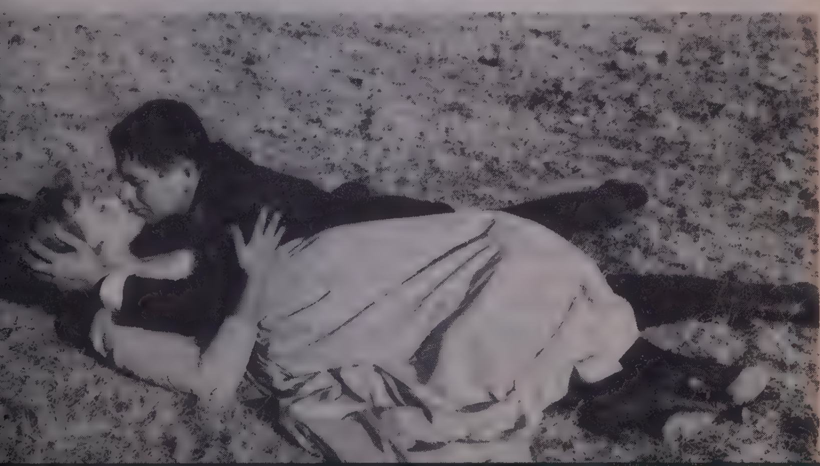
Joe Vogel says profits were aided by "foreign picture distribution." MGM shows its flicks in 80 countries abroad. Moreover the Government allowed MGM to keep its 49 theaters in 17 foreign countries. All told foreign operations accounted for their customary half of MGM's $100,000,000 film revenues in fiscal 1960.

But the main profit push came from Academy Award winning *Ben-Hur* which promises to become the biggest revenue producer of all time. *Ben-Hur* opened a year ago last month, is still selling on a "hard ticket" (reserved seat) basis. Metro reports nearly 17,000,000 people paid to see it the first year. Reportedly the picture has already grossed $20,000,000—an amount just about equal to MGM's production, prints and some advertising costs. All except "certain continuing distribution and advertising" expenses will be written off within two years. Generally however, MGM amortizes its pictures over a shorter period, usually 18 months.

The company believes *Ben-Hur* will gross at least $64,000,000 on its first run. This could amount to profits totaling $8 a share over a four-year period. And Joe Vogel says: "It could do $100,000,000 eventually."

Altogether MGM's pre-tax operating profits from film production-distribution rose to $10,200,000 in fiscal 1960 from $6,400,000 the year before. Most of the improvement came from *Ben-Hur* since MGM released some admittedly "rather dis-

Glenn Ford and Maria Schell star in Cimarron



appointing" box office attractions during the year. Among these were *Wreck of the Mary Deare, The Last Voyage* and *The Subterraneans.*

As usual, television income provided plush profits for the $148,000,000-assets company. Since 1956 MGM has been licensing its library of 720 pre-1949 films to television stations for seven-year periods. This is a highly profitable business since the films have been completely written off. In fiscal 1960 the company received 82% of TV revenues from the pre-1949s. Consequently MGM was able to net a chunky pre-tax operating profit of $8,800,000 on the total TV sales of $14,000,000.

TV Commercial Revenue

The remainder of MGM's television revenues comes from producing TV commercials and programs. In this category the company was slow to start and so far has not been very successful. But Joe Vogel hopes the *National Velvet* series on NBC and the hour-long program *The Islanders* on ABC, both of which debuted this Fall, will give his company firmer footing in original TV production.

Total television licensing contracts on the pre-'49s now come to $58,000,000 of which "$22,000,000 remains to be earned." Outsiders believe MGM will pass its peak of pre-'49 income this fiscal year but Joe Vogel disagrees. "We are reclassifying the group so when contracts expire we can offer new advantageous licenses. And so far no license has been granted to broadcast in color."

The foreign video market is still open. Only Australia, which jus[t] signed a five-year $2,600,000 con[-]tract, and Canada have been tapped "We have licensed just about 10 films outside the US." Treasure[r] Robert H O'Brien adds: "We'll ge[t] $100,000,000 from those films be[-]fore we are through."

But executives Vogel and O'Brie[n] agree the 370-to-375 post-1948 film[s] "are much more valuable." Alread[y] Columbia, Twentieth Century-Fo[x] and Warner Brothers have announce[d] plans to release a portion of thei[r] post-'48s. Joe Vogel allows: "Some[-]time next year we will consider put[-]ting some of ours out. But we'll hol[d] back anything really unusual lik[e] *American in Paris* which can earn lot on a single network run."

Another film which will probabl[y] never see TV light is *Gone Wit[h] the Wind.* This classic has grosse[d] $51,000,000 on three runs. Nex[t] March "in a tribute to the year o[f] the Civil War Centennial" *GWTW* will have its second gala opening i[n] Atlanta. "It will be just like the las[t] one in 1939. There will be a bi[g] ball with all the Southern governor[s] attending." Prexy Vogel figures th[e] Clark Gable—Vivian Leigh vehicl[e] "will gross $7-to-8,000,000 this time."

MGM hopes to dial further fisca[l] 1961 profits with *Butterfield* [8] which stars Eddie & Mrs Fisher an[d] Laurence Harvey. This film whic[h] is now showing in key cities aroun[d] the country "had disappointing re[-]views but it's going to be a ver[y] profitable picture." Edna Ferber'[s] *Cimarron,* "the famed novel of th[e] opening of the Oklahoma territor[y] in 1889," which stars Glenn For[d]

and Maria Schell was launched a fortnight ago in Oklahoma City. It "will open over the New Year in a selected group of cities." On the MGM set are *The Four Horsemen of The Apocalypse* (*again starring* Glenn Ford) to be finished "around May" and a new *Mutiny On The Bounty* with Marlon Brando is slated to capture screens in late 1961.

During the following fiscal year, MGM expects to issue a film which Joe Vogel believes "will match *Ben-Hur*." This is Samuel Bronston's production of *King of Kings* which MGM will distribute and also "have a substantial interest in." President Vogel comments: "Jeff Hunter plays Jesus and Robert Ryan is superlative as John The Baptist." Slated to open in October the picture will run on a hard-ticket basis as will *Mutiny* and, in certain runs, *Cimarron*.

With greater dependence on fewer and more expensive pictures, income of movie producers tends to swing sharply; many Wall Streeters insist it has become almost impossible to predict their future earnings. But Joe Vogel is not daunted. "I have never been as optimistic about the future of this company as I am right now. We will earn $5 a share from operations in fiscal 1961." The first quarter ended last month "was better than last year" when MGM earned $1,900,000 or 71¢ a share on $27,600,000 volume. "The next three quarters will be much better. The release schedule will be back to normal by the second quarter" which is two pictures a month instead of the strike-affected one.

President Vogel also points out "we have a lot of cash"—to be specific $40,500,000 in cash and securities as against $16,000,000 in 1958. Last month in an all-cash deal rumored to involve $2,750,000 MGM bought Verve Records Inc of Los Angeles on whose discs sound off relative newcomers Shelly Berman and Mort Sahl along with old standbys Ella Fitzgerald and Dizzy Gillespie. Joe Vogel thinks Verve "will add more than 30% to our record sales." In fiscal 1960 records and music netted MGM $1,900,000 before taxes on a $12,600,000 business. This includes 62%-owned music publisher Robbins Music Corp with its subsidiaries Leo Feist Inc and Miller Music Corp.

Buying Back Stock

During fiscal 1960 MGM continued to re-acquire its own stock—a policy begun in the Summer of 1959. So far 162,000 shares have been re-acquired at a cost of $4,950,000 or an average $30.50 a share. The stock is now "available" for stock options totaling 138,500 shares. At presstime the 2,700,000 shares traded around 42, its high for the year.

Another MGM asset "which has increased so much in value I just don't want to talk about it" is the company's 185 acres of Culver City studio property. Although Joe Vogel who maintains his office in Manhattan refuses to outline his plans, the company's Lot 3 is the last large unoccupied tract in the area. Located only twelve miles from the Los Angeles airport "it is a very desirable industrial site."

Top Ten Business News Events of 1960

Ballot counting basis: five points, first choice; four points, second choice; etc.

		Number of First Choice Votes	Total Number of Mentions	Vote: Total Count
1	Gold Outflow highlights the Balance of Payments problem	64	123	514
2	Business slows down instead of Soaring into the Sixties	46	86	349
3	The Fed moves early and often to ease credit; money rates drop steeply	5	69	205
4	The Stock Market slips sharply from its new alltime high	4	48	149
5	The unexpected Collapse in Steel and even more unexpected delay in recovery..	5	52	147
6	Profit Margins shrink throughout industry	5	46	123
7	Increased competition from Foreign Goods while economy and stock markets boom in most countries	3	29	73
8	Compact Cars dominate Detroit as medium-price lines gasp for gas	1	33	69
9	Extreme reluctance by most everyone to carry more than minimum Inventories	2	19	51
10	Railroad Mergers multiply	—	18	33

FOR THE TENTH consecutive December the Merrill Lynch office managers—now 139 strong including 11 outside the US—trooped to the polls to cast their vote for the biggest business or financial news of the year. The actual electorate was considerably larger since many managers called in their account executives for "nominating conventions" to determine the office's vote.

Ground rules, as always, eliminated political and general news events though the Presidential election and such overseas events as Castro or the Congo have obvious business implications.

The poll participants had little trouble deciding on the top event. The gold-international payments hubbub so prominent in this Fall's news was cited on all but a handful of ballots and received half of all firs[t] choice votes.

The Business Recession came in [a] solid second and might have show[n] up still stronger if many of the vo[ters] had not concentrated simply o[n] the drastic curtailment in steel pro[duction]—surely the most prominen[t] aspect of the general letdown. Thi[s] highlights the close interrelation be[tween] many of the year's major de[velopments] (true also in most pas[t] polls).

Thus, indications of slackenin[g] business triggered the Fed's credi[t] moves and obviously influenced th[e] stock market; the dip in interes[t] rates and stock prices speeded th[e] outflow of funds to currently mor[e] lucrative havens abroad. Intensifie[d] competition from overseas as well a[s] from sales-hungry US rivals pu[t]

essure on prices and squeezed ofit margins—another cause for ock market distress.

Meantime the business decline s probably been kept relatively ild by a better-than-average auto ar; however the successful rush US compacts cut painfully into etroit demand for steel (and mo- rist demand for oil—see page 1) en while it eased the drain on for- gn exchange caused by the great influx of imported automobiles.

Another characteristic retained from earlier polls is a remarkable continuity in business newsmakers. Money rates, those sensitive regulators as well as indicators of the modern complex economy, have scored high every year of the past decade, as amply evidenced in the long-range summary shown below. The chief news was whether they eased or tightened or, not infre-

A DECADE'S BUSINESS HIGHLIGHTS

The top three events in the nine previous INVESTOR'S READER polls

1	Federal Reserve unpegs long-term Government bonds (long kept at 2½%) and spurs general interest rate rise.	Highest basic tax rates ever, needed to help pay for Korea, take toll of corporate earnings.	US-Canadian oil & mineral finds (especially Williston) and their stock market effects.
2	The steel strike and the Supreme Court's outlawing of President Truman's seizure of the mills.	General decline in commodity prices, aided by drought-defying bumper crops.	Fewer Federal controls, with instalment credit regulation abandoned, price & wage controls weakened.
3	Rise & fall of money rates; early tightening (marked by 3¼% "Humphrey's Dumpties") reversed after business slacks.	Excess Profit Tax (EPT) extended for a last half year; individual relief also ahead.	Most commodity prices continue to drop.
4	Dow-Jones industrials break through 1929 high of 381; soar 40% in year to 393.	EPT death, personal tax cut aid profits despite sales lag, add to consumer buying.	Heralded "severe recession" proves mere moderate adjustment followed by fourth quarter upswing.
5	After 1954's "active ease," the Fed repeatedly and vigorously tightens credit again.	The stock market advances further, reaches 487 before Ike heart attack.	Banner year in virtually all aspects of economy.
6	Tight money becomes yet tighter—both more expensive and harder to find.	Unprecedented demand for Ford Motor stock at first public offering.	Steel strike settled by 3-year pact with fixed yearly hikes plus HCL adjustments setting national pattern.
7	Ever-tighter money policy dramatically reversed late in year as new business slack starts.	After recovery to 520 in July, stock market takes 3-month, 100-point plunge.	Budget ceiling forces drastic slash in defense outlays but Sputnik brings some year-end reappraisal.
8	"Amazing" bull market of 1958 lifts Dow-Jones industrials to 567.	Rapid recovery from shortest but steepest postwar recession.	Fed starts retightening credit at first sign of recovery.
9	The longest (116-day) steel strike in history.	Still tighter money climaxed by the "Magic 5s."	Big Three takes to the compact car while Little Two's stocks take to the air.

quently, turned around in midyear as the increasingly sophisticated Fed tried to adjust for business shifts.

Gold & international payments, in many ways the global extension of monetary management, makes its debut as a "Big Ten" event in its own right this year. But as early as 1951 the balloters mentioned the strength of the Canadian dollar, in subsequent years paid brief tribute to the growing economic strength of more distant lands.

The stock market is completing a year of substantial decline but it is noteworthy how even the year's Dow-Jones low of 566 towers above the new peaks celebrated as soaring achievements earlier in the Fifties and barely descends to the high set by the "amazing bull market" of 1958.

But while other parallels and examples of continuity abound, any reporter who has tabulated previous years' polls is quickly struck by one dominant and completely new characteristic: a subdued if not quite negative attitude which pervades the mass of replies. In the past, even during periods of falling business, the overwhelming emphasis was on the "tremendous vigor of the economy which easily shook off the recession;" or "the much-heralded 'severe recession' fails to materialize" or "despite downturn in many fields, the economy continues to ride pretty high."

This year ballot after ballot embellishes unfavorable news with comments like "disappointing gyrations," "failure to rebound," "failure of easier credit measures to stimulate economy," "downturn face of record employment and pe sonal income" and even "threat depression." And while one vo from Europe hails the "successf defense of the dollar," many mo voters speak of an "awakening the dollar crisis" or "flight of U capital."

At the heart of this year's dow cast reports is no doubt disappoi ment after the big and so far u realized build-up for "the Soaring S ties" which were to be ushered in w the end of the steel strike. Again, pecially in steel, the repeated "w till next month" predictions creat an atmosphere of uneasiness.

Of course, there were also plen of positive notes including reminde of the high level of business a stocks generally (even after t drops in both), continued sizal consumer and business spendi Detroit's recapture of the compa market. There was plenty of faith long-term growth. As for the ne term, a calm look at some of t present "Big News" shows ma aspects admittedly frustrating b hardly grounds for despair.

Gold Outflow. Except for 19 the US has for over a decade spe more abroad than it received. E only since the 1958 recession when t "balance of payments" gap reach $3.5 billion, then mounted to $ billion last year, did this arou public attention. Even at the dep of the recession, US exports ha always topped imports and t year's margin is close to $5 billio This has been offset in small pa by a "net outflow" for "service

(tourists spending, etc). But what ipped the payment balance have been vast Government outlays to bolster the Free World and maintain roops in an outlying line of defense plus increasing capital investments by US corporations seeking o tap promising foreign markets. Combined Government-private capital spending and grants have recently averaged $5-to-6 billion a year.

One visible result has been a steady drain which reduced US gold holdings from a high of $24.6 billion in 1949 to a still comfortable $18 billion last week. It encouraged the speculative flurry in the London gold market in October and an unfounded "dollar devaluation scare" (IR, December 7). Since the election Treasury Secretary Anderson has openly pushed a vigorous campaign to cut US dollar commitments. But big cuts in US spending are beset by many problems like 1) the tremendous needs of underdeveloped nations whose only alternative, however unfortunate for them, is to bow to Communist enticements; 2) many specific cuts may upset local economies we have worked hard to build up; 3) drastic restrictions on US Forces overseas may boost total Defense costs while cutting effectiveness. The most promising palliative is to entice some newly prosperous nations to help carry the load.

Recession. The most succinct comment on 1960 business came from a West Coast manager: "The fizzle of the sizzle." With the sharp 1959 upsurge after the 1958 recession temporarily stalled by the steel strike, virtually everyone expected the boom to resume—with added zoom because of the pent-up demand. It never happened. Industrial production did hit an alltime high of 111 (1957=100) in January after a climb from the strike low of 102 three months earlier. But then, instead of new gains, it ever-so-gradually eased.

By now most economists feel we are in a recession—but the "most gentle" one yet. Analyzes one observer: unlike previous downturns it has "not been developing momentum at this stage though it has probably further to go." Aside from steel and housing, production has held up pretty well, as has consumer income (but folks have spent a bit less, salted more away). Chief source of worry is unemployment with one out of 16 workers now out of a job.

Money Rates. The Fed which acted earlier than usual to keep the 1958-59 upsurge in check, also moved fast to ease credit when the signs of the unexpected 1960 slack occurred. The discount rate was lowered from 4% to 3½% in June, to 3% in August. More bank credit was made available through liberalized reserve requirements. Margins on stock purchases which had been raised to 90% in October 1958 were lowered to 70% in July. One prominent reflection of the money turnabout: the rate on 91-day Treasury Bills slid from 4.6% in January to 2.3% last week.

Stock Market. The very first trading day of 1960 the Dow-Jones industrials scaled an alltime peak of 685. For the next ten months the

path was mostly downhill, though interrupted by some brief, sharp climbs. After first dropping below 600 in March, the averages "broke through" decisively in September and settled to 566 in October. A rally followed and at presstime the D-J stood around 605.

Steel. After a January active as expected (with operations at 96% of capacity) and a very satisfactory first quarter (94%), steel production dropped sharply and from July on the operating rate was rarely lifted above the low fifties. In early December it was down to 48%. Apparently steel users had far more steel stashed away than anyone expected; dislocations during last year's strike now seem to have been largely caused by shortages of specific steels and parts at specific plants which became a general production bottleneck. And with steel strictly in a buyers' market, many buyers found they could get supplies almost instantly, could thus keep inventories at a minimum. But steel consumption appears to continuously exceed orders so eventually even seemingly inexhaustible stockpiles must be exhausted.

Profit Margins. Probably the most painful aspect of 1959 to most investors was shrinkage of profits even when sales held up fairly well—or "the difficulty of bringing gros income down to net." A Fir National City Bank survey of 57 manufacturing corporations show they only netted 6.1% of sales s far this year (with the third qua ter down to 5.4%) compared wit 6.5% in the first three quarte of last year.

Foreign Competition. While U exports comfortably exceed import an increasing number of US pro ducers of everything from appar to office machines feel the increa ingly hot (and sharp-priced) breat of foreign competitors. What more, an increasing number of U corporations have set up plants c affiliates abroad not only to suppl local markets but to import thei foreign products (samples: typ writers, cars, machinery) back int the US. However, developing th world market and taking advantag of the Common Market and Eur pean Free Trade Area are importa considerations. In any case, hu dreds of annual reports and ma agement presentations now echo th statement: "Our biggest growt comes from our foreign operations. The point was underlined by For Motor's current decision to spend third of a billion to acquire fu ownership of now 55%-owned Bri ish Ford.

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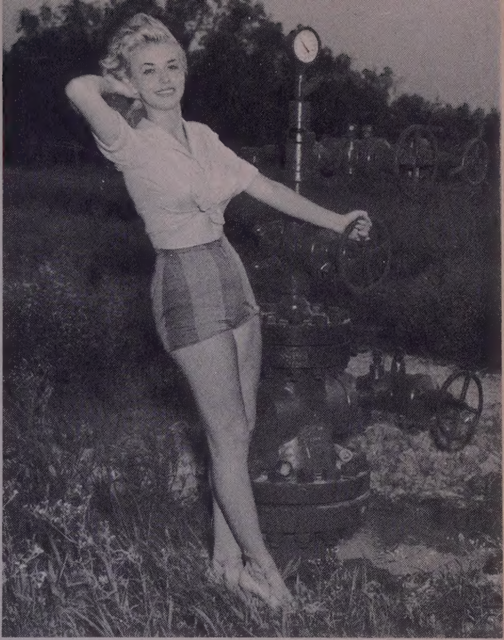
CHRISTMAS TREE DECOR



Many a lad has longed for a comely lass to be left under his Christmas tree. Gas gatherer Coastal States Gas Producing Company has done just that, thanks to a public relations man determined to take advantage of the happy fact that oil & gas men have their own kind of "Christmas tree" (see picture).

Alert Coastal States has been equally eager to let the public know of its progress and projections with net income up from 50¢ a share in the June 1957 year (the first full year of operations) to $1.52 in fiscal 1960. Based on present capitalization of 1,960,000 shares the company projects an operating net of $2.50 or so in fiscal 1961, plus a nonrecurring 62¢ gain from sale of stock. This is before a reserve for possible deferred income tax and does not consider possible dilution from warrants for 620,000 additional shares plus options for 80,000 more. The over-the-counter market already seems to have discounted a goodly amount of potential growth since prices have exploded from 18 in 1959 and 30 early this year to 58 last week—about 24 times the hoped-for 1961 operating result. The company reinvests its earnings and has paid no dividends.

Coastal States gets over three-fourths of its $17,600,000 (in 1960) revenues from collecting gas from individual wells and delivering it to major natural gas pipelines. The company has a 20-year contract with Lone Star Gas, will start deliveries to El Paso Natural Gas next year. It also has arranged for Phillips Pete to establish plants to extract liquid hydrocarbon byproducts from the gas before delivery to the pipelines.

Coastal States operates "an active drilling program" which, as co-founder-chairman-president Oscar Wyatt points out, not only "provides the additional reserves essential to our growth" but also "results in intangible development costs." Consequently the company has not had to pay any income taxes so far and foresees no current liability for some years. But starting this year it has put aside some amounts for "deferred taxes."

ARMCHAIR INVESTING

Christopher Morley once said, "Dancing is wonderful training for girls. It's the first way they learn to guess what a man is going to do before he does it."

Most men, on the other hand, have long since given up thinking they will ever know what a woman is going to do before she does it. They think it's easier to guess what the stock market will do!

Well, there are systems galore for predicting the market—all of them fallible in some degree or other. Still, money can be made there, as many successful investors will tell you.

If you have hopes of investing some time in the future, when your ship comes in or your savings accumulate, we have a suggestion for you—a way for you to get the feel of the market without risking any cash.

Choose a handful of companies that you know something about—perhaps the company that made your car, the utility that supplies your gas or electricity, the company that owns the store where your food is bought. Follow those companies on the financial pages of your newspaper every day. Read all the news that appears about them, watch their prices fluctuate, notice how news developments affect them.

You'll find armchair investing not only a fascinating pastime but also a valuable lesson in the ways of the market against the day when you actually buy common stocks.

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